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SUBJECT: WHAT'S LIKLEY TO HAPPEN NEXT IN LATVIA?

Classified By: Charge d'affaires, a.i. Stuart M. Seldowitz. Reason: 1.
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11. (C/NF) Summary: Conventional wisdom in Latvia is that PM Kalvitis will announce his resignation following the adoption of the 2008 budget, scheduled for November 8. If he does step down, we expect a somewhat protracted period of government formation that could likely go until Christmas or even in to early 2008. The preferred option of political elite will be to preserve the current four party coalition, but that may not be possible. There is a possibility that the leftist Harmony Center could join government, which would mark the first time that an ethnic-Russian focused party has joined government since the restoration of independence, but many Latvian politicians are nervous at this prospect. We think it is unlikely at this point that President Zatlers will call a referendum to dissolve the parliament, but if a workable coalition cannot be found, this is a possibility. Getting the GOL to focus on all but the most pressing issues in this period will be difficult; as many decisions as possible will be deferred to ensure maximum bargaining chips in coalition formation. The event that started all of this, the dismissal of the anti-corruption chief, has been taken off of center stage. A large public protest in favor of "good government" will take place November 3. End summary.

How long does Kalvitis have?

12. (U) Latvia's political instability deepened with the resignation October 31 of Daiga Stake as welfare minister. Although Stake was among the government's most unpopular ministers and her departure from cabinet has been rumored since spring, the government now faces four empty seats at the cabinet table - about a third of the cabinet. President Zatlers immediately announced that the government could not go on like this and publicly urged the government to quit following adoption of the 2008 budget in order to allow a complete reconstitution of the government (as opposed to filling each vacant seat individually). The budget is scheduled for adoption on November 8. The government bought itself some additional political breathing room by placing the dismissal of anti-corruption bureau (KNAB) chief Loskutovs on the back burner through a series of parliamentary and legal maneuvers (septel).

13. (U) The government will come under additional pressure on November 3 when a large rally is scheduled in the Dome Sqaure. Pauls Rauseps, a journalist helping to organize the event, estimates 15 - 20,000 people could attend. If true, this would be a huge event in the Latvian context and the largest political rally since the restoration of independence in 1991.

14. (C/NF) Everyone we talk to says they believe Kalvitis will go following adoption of the budget. His foreign policy advisor, Peteris Ustubs, said the PM has been helping the civil servants in his office (like Ustubs) line up follow on

jobs. Vaira Paegle, an MP from the PM's People's Party (TP) told us that the party leadership and rank-and-file know that with the party's poll numbers dropping precipitously and the PM's negative personal rating running almost two-to-one over his positive rating, he needs to go. Paegle said Kalvitis could even be dumped as head of the party, which she thought would be an even more bitter pill for Kalvitis to swallow than losing the PM's chair. Former minister Aigars Stokenbergs, recently fired and kicked out of TP, expressed lament that his former friend Kalvitis had reached this point but said "he is a dead duck."

15. (C/NF) The expectation, though, is that Kalvitis will announce an intent to resign, but delay implementation. Eduards Stiprais, chief of staff to President Zatlers, thought that the PM would announce his departure very quickly after the adoption of the budget, but say that he would step down after the TP party congress on Nov. 24. Others have suggested he would stay until Dec. 3, the third anniversary of his becoming PM. Stiprais indicated that he could see at least a small possibility of the PM trying to hang on and we would agree that nothing in Latvian politics is final until it happens. Nevertheless, it is hard to imagine Latvia beginning 2008 with Aigars Kalvitis as head of government.

If he goes, then what?

16. (C/NF) Should Kalvitis resign, the constitution requires President Zatlers to identify someone to form government. Stiprais confirmed that the President, who consulted with all political parties when the political crisis began, would undertake a new round of consultations to identify someone to lead a new government. While Stiprais did not dismiss the possibility of looking outside of parliament or the current

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government for such a candidate, he said that the most important criteria would be finding someone who could form a government that would have and could retain the confidence of the parliament.

17. (C/NF) The current coalition is made up of four parties, all predominantly ethnic Latvian and all calling themselves center-right. In addition to Kalvitis' People's Party (TP, 22 seats), there are the Greens and Farmers (ZZS, 17 seats), First Party/Latvia's Way (LPP/LC, 10 seats) and For Fatherland and Freedom (TB/LNNK, 6 seats). The current thinking within the coalition appears to be to try and continue the same grouping, just change all the faces. But none of the parties was as strong as it was coming out of elections last year. TP has seen its ratings slide and lost one member when Stokenbergs returned to parliament and became independent. Former FM Pabriks has also returned to parliament and his future in TP is questionable at best. ZZS has seen its speaker resign and plead guilty to lying to investigators in a corruption case, and its candidate for PM arrested for large scale bribery and corruption. It also lost a seat in parliament when a member left the party. TB/LNNK is riven by a serious leadership contest between two of its MEP's, Roberts Zile and Girts Valdis Kristovskis, that will be decided at a November 24 party conference. Kristovskis has already said that he would pull the party out of the coalition if he wins. Finally, LPP/LC has avoided major scandal, but the controversial image of Transport Minister Ainars Slesers (considered Latvia's third oligarch) and the party's conservative social agenda have prevented it from gaining any ground among the public.

18. (C/NF) Given the TP and TB/LNNK congresses on November 24, it will not be clear until after that date whether the current coalition can hold together. If it can, we think it most likely that TP, as the largest party, would try to keep the PM's post. Finance Minister Oskars Spurdzins, Riga City Development Chief Edmunds Krastins, and Mayor of Liepaja Uldis Sesks are commonly named. Also possibilities, although less likely, are culture minister Helena Demakova and former

health minister Gundars Berzins. ZZS, which has the Speaker's chair, says it will not nominate someone for PM. LPP/LC, if given the chance, would most likely nominate Interior Minister Ivars Godmanis or Slesers himself.

A new coalition?

¶9. (C/NF) If the current four parties cannot come to an arrangement, most likely because TB/LNNK leaves, then attention would turn to the two largest opposition parties, New Era (JL, 18 seats) and Harmony Center (SC, 17 seats). Both have internal problems of their own. JL has faced constant leadership struggles in the past year, with three changes of leadership since the elections. SC is a leftist party, which primarily draws its support from ethnic Russians and other minority communities. Among its components (it is actually the union of four parties) are the Latvian socialists. Their leader is Alfreds Rubiks, the last First Secretary of the Communist Party of the Latvian SSR. Barred

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from politics for his communist affiliation after January 1991, Arturs Rubiks, his son, is his stand-in in parliament. SC also has a component party that is understood to be under the control of Valery Kargins, the head of Parex Bank, and one of Latvia's wealthiest men. Parex has questionable associations with a number of businesses from Russia and the FSU.

¶10. (C/NF) Bringing either party into government would be difficult, hence the preference to keep the current coalition. JL is viewed by the other parties as sanctimonious and self-righteous. JL was the largest party in the previous parliament and in government until April 2006. However, representatives of the other parties all describe with bitter animosity their working relationships with JL in that period and say they want to avoid going back to that situation. Also, JL is viewed by others as having weak party discipline, making it possibly difficult to ensure parliamentary adoption of government decisions. SC is politically difficult because no "Russian party" has ever been in government before and many ethnic Latvians remain distrustful of them. The inclusion of Rubiks and his socialists would be a lightning rod for many Latvians and too harsh a reminder of Soviet days. If SC were brought in, kicking Rubiks and his group out of the party would likely be the price of admission. It is worth noting that SC nearly came in to government following the 2006 elections and they were willing to toss out Rubiks at that point. The difference now is that several of the parties, especially TP and ZZS, have nationalist voters who are already disgruntled and bringing in "the Russians" would likely be the final straw for them, further damaging these already weakened parties.

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The nuclear option

¶11. (C/NF) Another possibility would be for President Zatlers to dissolve the parliament and call for new elections. This has not been done since the restoration of independence. Stiprais, his chief of staff, told us that the president is "under intense pressure" to take this step, but is reluctant to do so. Stiprais said that the president's main concern is that new elections would likely result in SC becoming the largest or second largest party in parliament (it is polling at the top) and the president was not ready to see Russians "some of whom are of questionable loyalty" reach that position. We think a second reason for Zatlers' reluctance is that dissolving parliament requires a referendum and, while such a vote is likely to pass, if it failed, under the constitution Zatlers is removed from office.

¶12. (C/NF) Given the reasons above and the enormity of the decision, we think dissolution is unlikely in the near term.

Moreover, members of the current coalition would all likely lose seats in such an election, so they very much want to avoid new elections. But if a workable and stable coalition cannot be found (or if more and more members of parliament get caught up in anti-corruption investigations), Zatlers may have little choice. In that case, former minister Stokenbergs has told us that he would be ready to form a new political party focused on anti-corruption and promoting a Scandinavian model of welfare state and support for business to run in those elections and it is likely that such a party could do quite well.

What it means for us

¶13. (C/NF) How ever the process plays out, we think it will be at least the end of November before we have a complete cabinet in place, and the process could easily extend to Christmas or even into early 2008. We also expect that any new cabinet would look significantly different from the current one, meaning lots of ministers needing to get up to speed on their portfolios. The result is that we could be looking at anywhere from one to three months when the GOL is unable to take important political decisions. Already the privatization of national telephone company Lattelecom (which involves an American buyer) has been put off because several parties want to revisit that in the context of coalition negotiations. We also think that full resolution of the fate of KNAB chief Loskutovs will have to wait until the new government is in place. Getting the GOL to undertake new initiatives in this period will be extremely difficult as well.

¶14. (C/NF) As this all plays out, there are some important questions to follow. Will some of the oligarchs be sidelined and replaced by leaders with an anti-corruption, pro-Western focus? Will Latvia take a step forward to becoming a truly multi-ethnic society or will the ethnic dividing lines in politics persist and even deepen? Will the people who have reengaged in politics to join marches, online chats and other activities stay interested or return to ambivalence? The answers to these will tell us a lot about where Latvia is sixteen years after the restoration of independence
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